



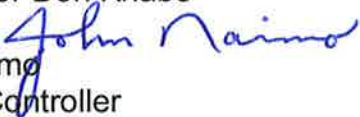
JOHN NAIMO  
AUDITOR-CONTROLLER

**COUNTY OF LOS ANGELES  
DEPARTMENT OF AUDITOR-CONTROLLER**

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September 29, 2015

TO: Supervisor Michael D. Antonovich, Mayor  
Supervisor Hilda L. Solis  
Supervisor Mark Ridley-Thomas  
Supervisor Sheila Kuehl  
Supervisor Don Knabe

FROM: John Naimo   
Auditor-Controller

SUBJECT: **HILLSIDES – A DEPARTMENT OF MENTAL HEALTH SERVICE  
PROVIDER – CONTRACT COMPLIANCE REVIEW**

We completed a contract compliance review of Hillside (Hillside or Agency), which included a sample of billings from Fiscal Years (FY) 2012-13 and 2013-14. The Department of Mental Health (DMH) contracts with Hillside to provide mental health services, including interviewing Program clients, assessing their mental health needs, and implementing treatment plans.

The purpose of our review was to determine whether Hillside provided the services outlined in their County contract, billed DMH for Program services provided, and appropriately spent DMH Program funds. We also evaluated the adequacy of the Agency's financial records, internal controls, and compliance with their County contract and other applicable guidelines.

During FYs 2012-13 and 2013-14, DMH paid Hillside approximately \$15.5 and \$17.2 million on a cost-reimbursement basis, respectively. The Agency provides services in the First and Fifth Supervisorial Districts.

**Results of Review**

**DMH Program Review**

Hillside's staff had the required qualifications to provide DMH Program services, and the Agency maintained adequate documentation to support the billings reviewed. However,

Hillsides did not document Informed Consent forms for three (38%) of the eight clients reviewed who received psychotropic medication.

*Hillsides' attached response indicates that they will ensure that Informed Consent is documented in the client's chart prior to treatment with psychotropic medication, and the prescribing physician will document their medication review with the client or guardian.*

### **DMH Fiscal Review**

Hillsides maintained adequate controls over their cash and fixed assets. However, Hillsides allocated their indirect and shared costs based on direct payroll costs, which included payroll expenditures charged at pre-determined rates, not actual hours worked. Hillsides inappropriately charged and/or allocated \$391,681 to the DMH Program. Specifically, for the expenditures reviewed, Hillsides:

- Charged \$18,424 to DMH for contracting proposal costs unrelated to the DMH Program.
- Allocated \$133,508 in FY 2012-13 and \$180,839 in FY 2013-14 to the DMH Program for shared costs based on inadequately supported allocation methodologies.
- Allocated \$48,922 to the DMH Program in May 2014 for shared and administrative payroll expenditures based on pre-determined rates, not actual hours worked by Program.
- Charged \$9,988 to DMH for 100% of three direct staff's payroll expenditures who worked on multiple Programs.
- Did not reconcile their FY 2012-13 DMH Cost Report with their financial records. After our review, Hillsides provided a revised FY 2012-13 Cost Report and supporting documentation.

*Hillsides' attached response indicates that they revised their FYs 2012-13 and 2013-14 accounting records to reflect the unallowable expenditures and revised shared and indirect cost amounts allocated to all programs, and reconciled the revised Cost Reports to their accounting records.*

Details of our review, along with recommendations for corrective action, are attached (Attachment I).

**Review of Report**

We discussed our report with Hillsides and DMH. Hillsides' attached response (Attachment II) indicates that they agree with our findings and recommendations. DMH management will work with Hillsides to ensure our recommendations are implemented.

We thank Hillsides management and staff for their cooperation and assistance during our review. If you have any questions please call me, or your staff may contact Don Chadwick at (213) 253-0301.

JN:AB:DC:EB:sk

**Attachments**

c: Sachi A. Hamai, Interim Chief Executive Officer  
Dr. Marvin J. Southard, D.S.W., Director, Department of Mental Health  
Brent M. Mason, Board Chair, Hillsides  
Joseph M. Costa, Chief Executive Officer, Hillsides  
Public Information Office  
Audit Committee

**HILLSIDES  
DEPARTMENT OF MENTAL HEALTH  
CONTRACT COMPLIANCE REVIEW  
FISCAL YEARS 2012-13 AND 2013-14**

**DMH BILLED SERVICES**

**Objective**

Determine whether Hillside (Hillside or Agency) maintained documentation to support the services billed to the Department of Mental Health (DMH) in accordance with their County contract and related guidelines.

**Verification**

We selected 28 of the billings from 19,516 approved Medi-Cal billings for October and November 2013, which were the most current billings available at the time of our review (July 2014). We reviewed the Assessments, Client Treatment Plans, Progress Notes, and Informed Consent forms in the clients' charts for the selected billings. The 28 billings represent services provided to 17 clients.

**Results**

Hillside maintained adequate documentation to support the billings reviewed. However, Hillside did not document their Informed Consent forms, as required by the DMH Provider's Manual, Chapter 2, Page 2-11, for three (38%) of the eight clients reviewed who received psychotropic medication. According to the DMH Provider's Manual, clients shall be treated with psychotropic medications only after they have been informed by the physician of their right to accept or refuse such medications.

**Recommendation**

- 1. Hillside management ensure that Informed Consent is documented in the client's chart prior to treatment with psychotropic medication.**

**STAFFING QUALIFICATIONS**

**Objective**

Determine whether Hillside's treatment staff had the required qualifications to provide mental health services.

**Verification**

We reviewed the California Board of Behavioral Sciences' website and/or the personnel files for 15 (38%) of the 39 treatment staff who provided services to DMH clients during October and November 2013.

**Results**

Each employee reviewed had the qualifications required to provide the billed services.

**Recommendation**

None.

**CASH/REVENUE****Objective**

Determine whether Hillsides properly recorded revenue in their financial records, deposited cash receipts into their bank accounts timely, and if bank account reconciliations were reviewed and approved by Agency management timely.

**Verification**

We interviewed Hillsides personnel, and reviewed their financial records and March 2014 bank reconciliation for one bank account.

**Results**

Hillsides properly recorded revenue in their financial records, deposited their DMH cash receipts timely, and bank account reconciliations were reviewed and approved by Agency management timely.

**Recommendation**

None.

**COST ALLOCATION PLAN/EXPENDITURES****Objective**

Determine whether Hillsides' Cost Allocation Plan (Plan) complied with their County contract, and if expenditures charged to DMH were allowable, properly documented, and appropriately allocated as required in their County contract and related guidelines.

**Verification**

We reviewed the Agency's Plan and their financial records for 81 (44 DMH and 37 shared) non-payroll expenditures, totaling \$558,242 (\$326,115 DMH and \$232,127 shared), charged to DMH from July 2012 to May 2014. We also interviewed Agency personnel.

**Results**

Hillsides prepared their Plan in compliance with their County contract. However, Hillsides allocated their shared costs based on direct payroll costs, which inappropriately included payroll expenditures charged at pre-determined rates, not actual hours worked. The Office of Management and Budget Circular A-122 (OMB A-122) Attachment A Section A.4 and the Auditor-Controller Contract Accounting and Administration Handbook (A-C Handbook) Section C.2.0 requires agencies to allocate shared costs equitably in accordance with the relative benefits received. As a result, Hillsides inappropriately allocated the \$232,127 in shared program expenditures reviewed.

Hillsides also inappropriately charged disallowed expenditures totaling \$24,061 (7%) of the \$326,115 reviewed to DMH. Specifically, Hillsides:

- Charged \$18,424 to DMH for contracting proposal costs unrelated to the Program. The A-C Handbook Section C.1.5 requires that only those expenditures that are necessary, proper, and reasonable to carry out the purposes and activities of the Program are to be charged to the Program.
- Charged \$1,889 to DMH for over the counter medications that are not related to the mental health program. The OMB A-122 Attachment A Section A.3 requires that expenditures be reasonable for the performance of the award.
- Charged \$3,748 to DMH for unallowable fundraising related costs. The OMB A-122 Attachment B Section 25 states that fundraising activities are unallowable expenditures.

After our review, Hillsides provided revised allocation worksheets reallocating indirect costs using actual direct payroll costs and re-allocated facility costs based on actual square footage occupied by the programs. However, Hillsides still needs to update their accounting records and cost reports to reflect their revised allocations.

**Recommendations****Hillsides management:**

2. **Revise their Fiscal Years 2012-13 and 2013-14 accounting records to reflect the unallowable expenditures and revised shared and indirect cost amounts allocated to the Department of Mental Health Program.**
3. **Ensure that the Department of Mental Health Program expenditures are allowable and supported with adequate documentation.**
4. **Allocate shared and indirect costs based on an allowable method and to all benefiting programs.**

**FIXED ASSETS AND EQUIPMENT****Objective**

Determine whether Hillsides' fixed assets and equipment purchased with DMH funds were used for the DMH Program, and adequately safeguarded.

**Verification**

We interviewed Hillsides personnel, and reviewed their fixed assets and equipment inventory list. We also performed a physical inventory of five laptops and two vehicles purchased with DMH funds to verify the items existed and were being used for the DMH Program.

**Results**

Hillsides adequately safeguarded and used the items we reviewed for the DMH Program.

**Recommendation**

**None.**

**PAYROLL AND PERSONNEL****Objective**

Determine whether Hillsides maintained personnel files as required and if payroll expenditures charged to DMH were allowable, properly documented, and appropriately allocated as required by the OMB A-122, the A-C Handbook, and their County contract.

**Verification**

We compared the payroll costs for 31 (9 direct, 12 shared, and 10 administrative) employees, totaling \$131,986 (\$25,306 direct, \$60,275 shared, and \$46,405 administrative) for May 2014, to the Agency's payroll records and time reports. We also interviewed staff and reviewed personnel files for the 31 employees.

**Results**

Hillsides maintained their personnel files as required. However, Hillsides:

- Allocated \$48,922 to the DMH Program in May 2014 for payroll and employee benefit costs for 12 shared and ten administrative employees based on pre-determined rates not based on actual conditions. The OMB A-122 Attachment A Section D.3 requires that actual conditions should be taken into account when selecting the allocation bases.
- Charged \$9,988 to DMH for three direct employees' payroll expenditures who worked on multiple programs. The OMB A-122 Attachment A Section A.4 and A-C Handbook Section C.2.0 requires agencies to allocate shared costs equitably in accordance with the relative benefits received.

After our review, Hillsides provided documentation to support payroll costs and a worksheet documenting the adjusted payroll expenditures for Fiscal Years (FY) 2012-13 and 2013-14, and submitted their revised Cost Reports to DMH. However, Hillsides has not updated their accounting records to reflect the revised payroll costs.

**Recommendations****Hillsides management:**

5. **Revise their Fiscal Years 2012-13 and 2013-14 accounting records to reflect the revised shared and administrative payroll costs allocated to the Department of Mental Health Program.**
6. **Ensure employees record actual hours worked each day for each program.**

**COST REPORT****Objective**

Determine whether Hillsides' FY 2012-13 DMH Cost Report reconciled to their financial records.



**Verification**

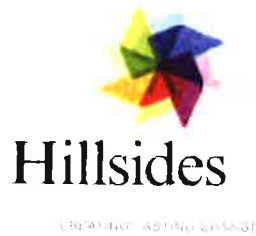
We compared the Agency's FY 2012-13 DMH Cost Report to their financial records.

**Results**

Hillsides' FY 2012-13 DMH Cost Report did not reconcile to their financial records. Specifically, Hillsides was not able to provide accounting records to support the \$15,706,137 reported on their Cost Report. The County contract Attachment II Section O requires agencies to submit accurate and complete Cost Reports. After our review, Hillsides provided a revised Cost Report and updated accounting records that reconciled.

**Recommendation**

- 7. Hillsides management ensure that the Department of Mental Health Cost Reports reconcile with their financial records.**



**Response to Department of Mental Health Contract  
Compliance Review Fiscal Years 2012-13 and 2013-14**

August 28, 2015

Dear LACDMH, Board of Supervisors, and LA County A-C:

Hillsides would like to thank you for providing recommendations that will help us strengthen our internal controls and safeguard public funds. We value and appreciate our partnerships with the various county entities like the Los Angeles County Department of Mental Health that support Hillsides in our vision of Creating Lasting Change in the lives of the thousands of children, youth, adults, and families we serve annually.

**DMH Billed Services**

**A-C Recommendation:**

1. Hillsides management ensures that Informed Consent is documented in the client's chart prior to treatment with psychotropic medication.

**Hillsides Response:**

1. Agreed. Hillsides management ensures that Informed Consent is documented in the client's chart prior to treatment with psychotropic medication. The prescribing physician must document review of medications with the client or guardian when: a new medication is prescribed; at least annually even in the absence of medication changes; and the client resumes taking medication following documented withdrawal of consent for treatment. Hillsides' voluntary clients sign an Outpatient Medication Review form that address type of medications and sides effects. These forms are chronologically filed in the client's clinical record.

**Expenditures/Cost Allocation Plan**

**A-C Recommendation:**

2. Revise their Fiscal Years 2012-13 and 2013-14 accounting records to reflect the unallowable expenditures and revised shared and indirect cost amounts allocated to the Department of Mental Health Program.
3. Ensure that the Department of Mental Health Program expenditures are allowable and supported with adequate documentation.
4. Ensure that shared and indirect costs allocated to the County Program are allocated based on allowable and equitable basis and supported with adequate documentation.

**Hillsides Response:**

2. Agreed. After the contract compliance review Hillside has revised its Fiscal Years 2012-13 and 2013-14 accounting records to reflect the unallowable expenditures and revised shared and indirect cost amounts allocated to all programs.
3. Agreed. Hillside has reminded staff of the rules related to this contract and supervisors and financial services staff have been diligently reviewing each invoice to ensure they are allowable and supported with adequate supporting documentation.
4. Agreed. After the contract compliance review Hillside has revised and updated its shared and indirect costs allocation methods. They are either based on personnel, total program direct expenditures, number of clients, and square footage.

**Payroll and Personnel**

**A-C Recommendation:**

5. Revise their Fiscal Years 2012-13 and 2013-14 accounting records to reflect the revised shared and administrative payroll costs allocated to the Department of Mental Health Program.
6. Ensure that shared employees' payroll expenditures are supported by timecards or time studies reporting actual hours worked each day by program.

**Hillside Response:**

5. Agreed. Hillside has revised its Fiscal Years 2012-13 and 2013-14 accounting records to reflect revised shared and administrative payroll costs allocated to the Department of Mental Health Program.
6. Agreed. After the contract compliance review Hillside has been using an electronic time tracking system to record and support each employee's time by day and by program.

**Cost Reports**

**A-C Recommendation:**

7. Hillside management ensure that the Department of Mental Health Cost Report reconcile with their financial records.

**Hillside Response:**

7. Agreed. Hillside has reconciled its Fiscal Years 2012-13 and 2013-14 cost reports to its accounting records. Hillside has also revised the cost reports and re filed with the Department of Mental Health.

For compliments, comments, or concerns, please contact me via email: [rherren@hillsides.org](mailto:rherren@hillsides.org)

Kind regards,

*Ryan Herren*

Ryan Herren  
Chief Financial Officer